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UNCLAS SECTION 01 OF 02 ASHGABAT 000432

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DEPARTMENT FOR SCA/CEN

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SUBJECT: NIYAZOV IN THE OIL AND GAS WEEDS

REF: ASHGABAT 366

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Summary

1. (SBU) Shortcomings and proposed solutions in the oil and gas industry were raised by President Niyazov during an April 20 oil and gas industry meeting in Turkmenbashi city. Niyazov reviewed the oil and gas industry's performance and production targets for the year, and reprimanded experts for inaction and lack of resolve. Industry experts have complained about the lack of initiative in the ministry that is born by fear of Niyazov and his continual firings. Despite the obvious chaos, the GOTX plans to increase oil and gas production to 10 million tons and 80 bcm this year, respectively. Several private energy sector experts have described the Ministry of Oil and Gas Industry and Mineral Resources personnel as too scared to make a decision. The result has been an idle industry, caught in the responsibility-avoidance doldrums. End Summary.

Niyazov Chews Out Oil and Gas Executives

2. (SBU) President Niyazov berated oil and gas industry leaders on April 20 for corruption and nepotism and for not meeting expected performance indicators. During the Soviet style meeting, the President demanded explanations for shortcomings, real or perceived, from virtually every senior manager in the oil and gas industries. The common theme was that Turkmenistan is not producing or selling enough oil and gas. Niyazov said that experts have told him that Turkmenistan has 45 trillion tons of oil equivalents, including 22 trillion tons of natural gas. If these reports are accurate, Niyazov wondered, where are these reserves located and why have they not yet been found?

Don't Give it to Foreigners!

3. (SBU) Niyazov said it is permissible to give foreign companies oil and gas rights offshore, but that oil and gas executives should accept "as law" instructions not to give foreigners anything onshore. He emphasized that Turkmenistan

has oil and gas expertise, but that it lacked equipment. Therefore, the country should buy equipment, train its people, and do the work itself rather than giving the rights away and losing oil to foreigners. Niyazov further instructed that oil and gas wells should not be drilled until experts were sure that they would be productive. The President told the assembled audience to use unspecified modern scientific techniques to determine if oil or gas is present before drilling begins.

Gas: Mission Impossible

¶4. (SBU) Oil and Gas Minister Gurbanmyrat Atayev told Niyazov that Turkmenistan would produce 80 bcm of natural gas in 2006. Turkmenistan last produced this amount in 1990, when it extracted around 82 bcm. Production in 2005 was 63 bcm, and 8% increase over 2004. The country is on course to produce approximately 75 bcm so far in 2006. The GOTX's gas liabilities for 2006 total 53 bcm, excluding the still ambiguous agreements with Ukraine. The GOTX plans to reduce domestic consumption in 2006 to 15 bcm. If these projections are accurate, Turkmenistan will have a surplus of 27 bcm of natural gas in 2006; it is unclear what the GOTX intends to do with this uncommitted gas. However, on April 19, a Gazprom delegation visited Ashgabat to begin negotiations for 50 bcm per year; the terms of any agreements reached were not announced. Turkmenistan additionally committed 14 bcm of gas to Iran for 2007 and beyond, and a 30 bcm Turkmen-China pipeline deal is slated to start in 2009.

Oil: Mission Possible

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¶5. (SBU) Atayev said that Turkmenistan would produce 10 million tons of oil in 2006. IN 2006, the GOTX reported that it produced 9.5 million tons of crude oil; foreign companies extracted 2.3 million tons. Although foreign production increased by 30% in 2005 vice 2004, the total production figure was 1% less than the previous year. The GOTX may fulfill the 10 million ton target if the debit of Turkmenistani operated fields does not fall this year and the foreign companies' production grows at the same rate. However, Niyazov reported that oil production in the first quarter of 2006 is 13% below the production level for the same period last year. At the current production rate, Turkmenistan will be able to produce slightly over eight million tons of crude.

Hydrocarbon Resources: The Devil is in the Details

¶6. (SBU) During the April 20 meeting, Niyazov used the number of 45 trillion tons of oil equivalent, which includes 22 tcm of natural gas. This number represents known resources, plus what has been extracted. However, 22 tcm is not the amount anticipated for commercial recovery (reserves). The natural gas reserves of Turkmenistan are likely to be more modest. The continued secrecy surrounding the certification of the Dovletabad gas field, earmarked for the TAP pipeline, is the cornerstone. The Financial Times periodical Financial Express reported on April 17 that the De Golyer and McNaughton Dovletabad field certification states that the field is currently producing about 27 bcm/year and possibly has reserves of 1.4 tcm. (Note: According to the Society of Petroleum Engineers, possible reserves are those unproved reserves which geological and engineering data suggests are less likely to be recoverable than probable reserves. End Note.) The recoverable resources of Turkmenistan's largest gas field could be as low as 600-650 bcm.

Comment

17. (SBU) Getting into "the weeds" in the oil and gas industry is nothing new for Niyazov, particularly as the recent reorganization of the oil and gas sector (reftel) strengthened his overall control of the industry. The president's ranting, however, lead to little more than a unskilled and ineffective bureaucracy too scared to make any decisions. Niyazov continues to make increasing (and increasingly improbable) commitments for future gas sales, but the lingering questions is whether Turkmenistan has the goods; so far, known facts do not support as bright a future as Niyazov is painting. End Comment.
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